

THE ETHICS APPLICABILITY, DEFINITIONS, INTERPRETATIONS, AND ETHICS RULINGS CONTAINED IN THIS DOCUMENT ARE EFFECTIVE ON APRIL 30, 2012

Ethics interpretations and rulings are promulgated by the executive committee of the professional ethics division to provide guidelines about the scope and application of the rules but are not intended to limit such scope or application. Publication of an interpretation or ethics ruling in the Journal of Accountancy constitutes notice to members. A member who departs from interpretations or rulings shall have the burden of justifying such departure in any disciplinary hearing.

The Professional Ethics Executive Committee (PEEC) has adopted the following: a revised Interpretation No. 203-1, “Departures from ~~Established~~ **Generally Accepted** Accounting Principles,” under Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, ET sec. 203 par. .02); a new Interpretation No. 203-5, “Financial Statements Prepared Pursuant to Financial Frameworks Other Than Generally Accepted Accounting Principles,” under Rule 203 (AICPA, *Professional Standards*, ET sec. 203 par. .06); and a revised Interpretation No. 501-1, “Response to Requests by Clients and Former Client for Records,” under Rule 501, *Acts Discreditable* (AICPA, *Professional Standards*, ET sec. 501 par. .02). PEEC has deleted the following: Ethics Ruling No. 74, “Audits, Reviews, or Compilations and a Lack of Independence,” of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, ET sec. 191 par. .148–.149), and Ethics Ruling No. 135, “Association of Firms Not Partners,” of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .269–.270). PEEC has also made a technical correction to Interpretation No. 101-11, “Modified Application of Rule 101 for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements,” under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .13)

[TEXT OF DELETIONS IS NOT PUBLISHED]



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Revised Interpretation Under Rule 203, *Accounting Standards*

(Additions are shown in boldface italic, and deletions are shown in strikethrough)

203-1—Departures ~~f~~From ~~g~~Generally ~~a~~Accepted~~established~~ ~~a~~Accounting ~~p~~Principles

Rule 203 [~~ET section 203.01~~] was adopted to require compliance with accounting principles promulgated by the body designated by Council to establish such principles. There is a strong presumption that adherence to officially established accounting principles would in nearly all instances result in financial statements that are not misleading.

*Reference to generally accepted accounting principles (GAAP) in Rule 203, Accounting Principles [sec. 203 par. .01], means those accounting principles promulgated by bodies designated by council, which are listed in appendix A, Council Resolution Designating Bodies to Promulgate Technical Standards. However, ~~I~~In the establishment of accounting such principles, it is difficult to anticipate all of the circumstances to which such principles might be applied. **There is a strong presumption that adherence to GAAP would, in nearly all instances, result in financial statements that are not misleading.** This ~~is~~Rule 203 [sec. 203 par. .01] therefore recognizes that, upon occasion, there may be unusual circumstances ~~where~~**when** the literal application of ~~GAAP pronouncements on accounting principles~~ would have the effect of rendering financial statements misleading. In such cases, the proper accounting treatment is that which will render the financial statements not misleading.*

The question of what constitutes unusual circumstances, as referred to in ~~is~~Rule 203 [sec. 203 par. .01] is a matter of professional judgment involving the ability to support the position that adherence to a promulgated principle **within GAAP** would be regarded generally by reasonable persons as producing ~~a misleading~~ **financial statements**~~result~~.

Examples of circumstances ~~which~~**that** may justify **a** departures from ~~a principle~~**GAAP** are new legislation or the evolution of a new form of business transaction. An unusual degree of materiality or the existence of conflicting industry practices are examples of circumstances ~~which~~**that** would not ordinarily be regarded as unusual in the context of ~~is~~Rule 203 [sec. 203 par. .01].

[Revised, February 2012, effective April 30, 2012, by the Professional Ethics Executive Committee.]

New Interpretation Under Rule 203

.06 203-5—Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other Than GAAP

Reference to GAAP in Rule 203 [sec. 203 par. .01] means those accounting principles promulgated by bodies designated by council, which are listed in appendix A. Financial statements prepared pursuant to other accounting principles would be considered financial reporting frameworks other than GAAP within the context of Rule 203 [sec. 203 par. .01].

However, Rule 203 [sec. 203 par. .01] does not preclude a member from preparing or reporting on financial statements that have been prepared pursuant to financial reporting frameworks other than GAAP, such as (a) financial reporting frameworks generally accepted in another country, including jurisdictional variations of International Financial Reporting Standards (IFRSs) such that the entity's financial statements do not meet the requirements for full compliance with IFRSs as promulgated by the International Accounting Standards Board; (b) financial reporting frameworks prescribed by an agreement or a contract; or (c) an other comprehensive basis of accounting, including statutory financial reporting provisions required by law or a U.S or foreign governmental regulatory body to whose jurisdiction the entity is subject.

In such circumstances, however, the financial statements or reports should not purport that the financial statements are in accordance with GAAP, and the financial statements or reports on those financial statements, or both, should make clear the financial reporting framework(s) used.

[Added, February 2012, effective April 30, 2012, by the Professional Ethics Executive Committee.]

Revised Interpretation Under Rule 501, *Acts Discreditable*

(Additions are shown in boldface italic, and deletions are shown in strikethrough)

.02 501-1—Response to ~~Requests by eClients and fFormer eClients for rRecords~~

Terminology

The following terms are defined *subsequently* ~~below~~ solely for use with this interpretation:

- *The term client includes current and former clients.*
- *Client-provided records* are accounting or other records belonging to the client that were provided to the member by, or on behalf of, the client, including *hardcopy or electronic* reproductions of such records.
- *Client records prepared by the member* are ~~accounting or other records (for example, tax returns, general ledgers, subsidiary journals, and supporting schedules such as detailed employee payroll records and depreciation schedules) that the member was engaged to prepare for the client.~~
- **Member-prepared** ~~Supporting records~~ are ~~information~~ **accounting or other records that the member was not specifically engaged to prepare and that are** not reflected in the client's books and records ~~that~~ **or** are otherwise not available to the client, with the result that the client's financial information is incomplete. ~~For eExamples, supporting records~~ include adjusting, closing, combining, or consolidating journal entries (including computations supporting such entries) **and supporting schedules and documents** that are ~~produced~~ **proposed or prepared** by the member **as part of** ~~during~~ an engagement (for example, an audit).
- **Member's work products are deliverables as set forth in the terms of the engagement, such as tax returns.**
- *Member's working papers are all other items prepared solely for purposes of the engagement and* include, ~~but are not limited to, items prepared by the~~
 - *member, such as* audit programs, analytical review schedules, and statistical sampling results; **and** analyses, ~~and schedules prepared by the, and~~
 - client, at the request of the member **and reflecting testing or other work done by the member.**

Interpretation

Members must comply with the rules and regulations of authoritative regulatory bodies, such as the member's state board(s) of accountancy, when the member performs services for a client and is subject to the rules and regulations of such regulatory body. For example, a member's state board(s) of accountancy may not permit a member to withhold certain records notwithstanding fees due to the member for the work performed. Failure to comply with the more restrictive provisions contained in the rules and regulations of the applicable regulatory

body concerning the return of certain records would constitute a violation of this interpretation.

Client-provided records in the member's custody or control should be returned to the client at the client's request.

Unless a member and the client have agreed to the contrary, ~~When a client or former client (client) makes a request for *member-prepared* client-provided records, client records prepared by the member, or supporting records~~ *or a member's work products* that are in the custody or control of the member or the member's firm (member) that have not previously been provided to the client, the member should respond to the client's request as follows:¹

- ~~• *Client-provided records in the member's custody or control should be returned to the client.*~~
- ~~• *Client records prepared by the member should be provided to the client, except that client records prepared by the member may be withheld if the preparation of such records is not complete or there are fees due the member for the engagement to prepare those records.*~~
- *Member-prepared Supporting* records relating to a completed and issued work product should be provided to the client, except that such supporting records may be withheld if there are fees due to the member for the specific work product.
- *Member's work products should be provided to the client, except that such work products may be withheld*
 - *if there are fees due to the member for the specific work product;*
 - *if the work product is incomplete;*
 - *for purposes of complying with professional standards (for example, withholding an audit report due to outstanding audit issues); or*
 - *if threatened or outstanding litigation exists concerning the engagement or member's work.*

Once the member has complied with these requirements, he or she is under no ethical obligation to comply with any subsequent requests to again provide such records or copies of such records. However, if subsequent to complying with a request, a client experiences a loss of records due to a natural disaster or an act of war, the member should comply with an additional request to provide such records.

Member's working papers are the member's property and need not be provided to the client under provisions of this interpretation; however, such requirements may be imposed by state and federal statutes and regulations; and contractual agreements.

¹ The member is under no obligation to retain records for periods that exceed applicable professional standards, state and federal statutes and regulations, and contractual agreements relating to the service performed.

In connection with any request for client-provided records, *member-prepared* ~~client~~ records prepared by the member, or supporting records, *or a member's work products*, the member may:

- Charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that such fee be paid prior to the time such records are provided to the client;
- Provide the requested records in any format usable by the client;² and
- Make and retain copies of any records returned or provided to the client.

The member is not required to convert records that are not in electronic format to electronic format or to convert electronic records into a different type of electronic format. However, if the client requests records in a specific format, and the records are available in such format within the member's custody and control, the client's request should be honored. In addition, the member is not required to provide the client with formulas, unless the formulas support the client's underlying accounting or other records, or the member was engaged to provide such formulas as part of a completed work product.

Where a member is required to return or provide records to the client, the member should comply with the client's request as soon as practicable but, absent extenuating circumstances, no later than 45 days after the request is made. The fact that the statutes of the state in which the member practices grants the member a lien on certain records in his or her custody or control does not relieve the member of his or her obligation to comply with this interpretation. ~~In addition, certain states have laws and regulations that impose obligations on the member greater than the provisions of this interpretation and should be complied with.~~

[Revised, February 2012, effective April 30, 2012, by the Professional Ethics Executive Committee. Revised, effective February 28, 2011. Revised, effective April 30, 2000, by the Professional Ethics Executive Committee. Revised, effective April 30, 2006, by the Professional Ethics Executive Committee.]

² ~~The member is not required to convert records that are not in electronic format to electronic format. However, if the client requests records in a specific format and the member was engaged to prepare the records in that format, the client's request should be honored.~~

Technical Correction to Interpretation Under Rule 101, *Independence*

(Additions are shown in boldface italic)

.13 101-11—Modified ~~a~~Application of ~~r~~Rule 101 for ~~e~~Engagements ~~p~~Performed in ~~a~~Accordance ~~w~~With Statements on Standards for Attestation Engagements

Rule 101, *Independence* [sec. 101 par. .01], and its interpretations and rulings apply to all attest engagements. However, the following exceptions apply when performing engagements to issue reports in accordance with Statements on Standards for Attestation Engagements (SSAEs) when independence is required; or when the member’s compilation report does not disclose a lack of independence:

- Covered members need to be independent with respect to the responsible party(ies).⁴³ See the following section for specific guidance for agreed-upon procedures (AUP) engagements performed under SSAEs.
- In circumstances in which the individual or entity that engages the member is not the responsible party, covered members need not be independent of that individual or entity. However, consideration should be given to the requirements of Interpretation *No.* 102-2, “Conflicts of Interest,” under Rule 102, *Integrity and Objectivity* [sec. 102 par. .03], with regard to any relationships that may exist with the individual or entity that engages the member to perform these services.
- Nonattest services that would otherwise impair independence under Interpretation *No.* 101-3 [sec. 101 par. .05] may be provided to the responsible party(ies) when such services do not relate to the specific subject matter⁴⁴ of the SSAE engagement, provided that the general requirements of Interpretation *No.* 101-3 [sec. 101 par. .05] are met.

AUP Engagements

When performing an AUP engagement *under the SSAEs*, only the following covered members and their immediate families are required to be independent with respect to the responsible party(ies) in accordance with Rule 101 [sec.101 par. .01]:

- Individuals participating on the AUP engagement team;
- Individuals who directly supervise or manage the AUP engagement partner;~~and~~

⁴³ For purposes of this interpretation, the term *responsible party* is as defined in the Statement on Standards for Attestation Engagements (SSAEs). [Footnote revised September 2011, effective November 30, 2011. Footnote renumbered, July 2002, to reflect conforming changes necessary due to the revision of Interpretation 101-1. Footnote subsequently renumbered by the revision of Interpretation 101-2, April 2003. Footnote subsequently renumbered by the revision of Interpretation 101-3, September 2003. Footnote subsequently renumbered by the revision of Interpretation 101-3, July 2004. Footnote subsequently renumbered by the revision of Interpretation 101-3, April 2006. Footnote subsequently renumbered by the revision of Interpretation 101-3, February 2007 and July 2007. Footnote subsequently renumbered by the revision of Interpretation 101-1, March 2010.]

⁴⁴ For purposes of this interpretation, the term *subject matter* is as defined in the SSAEs. [Footnote revised and renumbered September 2011, effective November 2011.]

- Individuals who consult with the attest engagement team regarding technical or industry-related issues specific to the AUP engagement-

In addition, independence would be impaired if the firm had a financial relationship covered by item (A) of Interpretation No. 101-1 [sec. 101 par. .02] with the responsible party(ies) that was material to the firm.

Independence will not be impaired if the general requirements of Interpretation No. 101-3 [sec. 101 par. .05] are not met when the member is also providing nonattest services, unless such services relate to the specific subject matter of the AUP engagement.

[Revised, February 2012, effective April 30, 2012. Revised September 2011, effective November 30, 2011. Replaces previous Interpretation No. 101-11, “Independence and Attest Engagements,” January 1996, effective January 31, 1996. Revised, effective November 30, 2001, by the Professional Ethics Executive Committee.]